

Chapter 11

The Process of Deregulating the Sugarcane–Ethanol Industry

To analyze the process of deregulation of the sugarcane–ethanol industry in Brazil, which spanned the years 1997–1999, a total of 28 interviews were conducted between January and August 1999. The interviewees were agribusiness leaders in the industry, managers of production facilities, heads of industry associations, representatives of the sugarcane suppliers, industry consultants, legislators, and members of the public bureaucracy. Within the institutional framework existing at that time, the interviewees were influential in determining governmental policy and decision-making concerning the industry.

The interviews followed a number of scripts designed to identify, first, whether the interviewees considered that the removal of the state should be whole or partial, the reasons given in each case, and what would be the new form of government intervention required. In addition, we sought to identify characteristics of the market for sugarcane, sugar, and ethanol that could predict market failures and would therefore justify government intervention, as well as to determine the best ways to govern existing transactions given the characteristics of those transactions and of the institutional environment at that time. Subsequently, we sought to understand the process of deregulation and the causes of and those responsible for the various delays in order to identify the actors and power resources involved, as well as the effects of their actions on the resulting policies affecting the industry.

Among the leaders interviewed were members of the Consultative Committee of the *Conselho Interministerial do Açúcar e do Alcool* (CIMA, Inter-Ministerial Council on Sugar and Ethanol), which included representatives of sugarcane suppliers, sugar producers, and ethanol producers, as well as a federal senator. In addition, we interviewed four consultants of the CIMA Technical Subcommittee. We also interviewed the Director of the Department of Ethanol and Sugar of the Ministry of Development, Industry, and Trade.

In selecting our sample of facilities to be evaluated, we tried to make it as comprehensive as possible, within the limitations of the study. At that time, there were 324 production facilities of various sizes, differing from each other because of regional characteristics (in terms of climate, topography, and agricultural yield), location (each having its particular logistical problems), administrative organization, and financial profile. Therefore, each facility was distinct in terms of production

costs, efficiency, and marketing. In view of those differences, we decided to apply certain selection criteria.

First, we divided the facilities into four “subgroups,” distinguished by the way in which the raw materials (specifically sugarcane) were acquired: those at which all of the sugarcane used is obtained from sugarcane suppliers (independent sugarcane suppliers), those at which a portion of the sugarcane is obtained from sugarcane suppliers and the remainder is produced by the facility itself, those at which all of the sugarcane is produced by the facility itself, and those at which all of the sugarcane is grown on leased land. We established those groups in order to identify the differences and difficulties related to the implementation of the new model of remuneration for sugarcane (CONSECANA-SP). In addition, we attempted to interview representatives of traditional facilities—those existing prior to the establishment of the *Programa Nacional do Alcool* (Proálcool, National Ethanol Program)—as well as those of facilities arising as a result of the Proálcool implementation, which were located in more distant regions, notably in the western part of the state of São Paulo and in the state of Mato Grosso, as well as in the state of Paraná, a state that was then relatively new to sugarcane cultivation and whose production was on the rise at the time. We also interviewed industry leaders and sugarcane suppliers from the northeastern region. In order to gain a better understanding of the perspective of the sugarcane suppliers, we interviewed the president of the Federation of Sugarcane Growers in Brazil and the presidents of the two largest associations of sugarcane suppliers in the south-central part of the country (those for the Sertãozinho and Piracicaba regions of the state of São Paulo), as well as the president of the sugarcane supplier associations for the city of Jaú (also in the state of São Paulo).

Several legislators in the House of Representatives, some of whom were also members of the CIMA Advisory Committee, voiced their opinions on the sugarcane–ethanol industry during the Joint Public Hearing (with the Committee on Agriculture and Rural Policy and the Committee on Economy, Industry, and Trade), which was held in the House of Representatives, in Brasília, on April 15, 1999. Participants in that public hearing included other government officials whose actions were decisive for the sector, including then-Executive Secretary of the Ministry of Development, Industry, and Trade, Bolivar Barbosa Moura Rocha, and then-Director General of the National Petroleum Agency, David Zylbersztajn.¹ The following is a list of the interviewees, and of the organization(s) to which they belonged in 1999:

¹ The other members of the panel were as follows: Antônio Celso Cavalcanti de Andrade (president of the Federation of Sugarcane Growers in Brazil); Luiz Milton (deputy secretary for economic monitoring of the Ministry of Finance); Gilberto Carvalho Tavares de Melo (chairman of the Pernambuco State Sugarcane Ethanol Industry Association); Gustavo Costa Maranhão (president of the Brazilian Ethanol Industry Association); Jorge Toledo Florêncio (president of the Alagoas State Sugarcane Ethanol Industry Association); José Luiz Perez Garrido (executive secretary of the Ministry of Mines and Energy); Ricardo Dornelles Gusmao (coordinator of the Fuel Ethanol Marketing Committee); Sérgio Luiz Leite (secretary general of the São Paulo State Federation of Chemical and Pharmaceutical Industry Workers; and Werther Annicchino (member of the Board of Directors of the Cooperative of Sugar and Ethanol Producers in the State of São Paulo).

a. Members of the CIMA Advisory Committee

1. Antônio Celso Cavalcanti de Andrade—chairman, Federation of Sugarcane Growers in Brazil.
2. Gustavo Costa A. Maranhão—president, Brazilian Ethanol Industry Association.
3. Jorge Toledo Florêncio—president, Alagoas State Sugarcane Ethanol Industry Association.
4. Jonas Pinheiro—Senator from the state of Mato Grosso.
5. Werther Annicchino—board member, Cooperative of Sugar and Ethanol Producers in the State of São Paulo.

b. Members of the CIMA Technical Subcommittee

6. Antônio de Pádua Rodrigues—Department of Planning and Economy, *União da Indústria de Cana-de-Açúcar* (UNICA, Brazilian Sugarcane Industry Association).
7. Luiz Carlos Corrêa Carvalho—superintendent, UNICA.
8. Plínio Nastari—president, DATAGRO (consulting firm).

c. Representatives of manufacturer associations

9. Honório Kytaiama—superintendent, *Sociedade dos Produtores de Açúcar e de Alcool do Estado de São Paulo* (Sopral, São Paulo State Society of Sugar and Ethanol Producers).
10. Lamartine Navarro Jr.—president, Sopral.
11. Paulo Zanetti—Coalition of Sugar and Ethanol Producers.
12. Roberto Rezende Barbosa—board member, São Paulo State Sugarcane Ethanol Industry Association; executive vice-president treasurer, UNICA.
13. João Carlos de Figueiredo Ferraz—chairman of the board, Brazilian Ethanol Exchange.

d. Representatives of sugarcane supplier associations

14. Francisco Paulo L. Brandão—president, Association of Sugarcane Growers in the Jaú Region.
15. José Coral—president, Piracicaba Association of Sugarcane Suppliers; president, Piracicaba Sugarcane Growers Cooperative; vice-president, Organização dos Plantadores de Cana do Estado de São Paulo (ORPLANA, São Paulo State Sugarcane Growers Association).
16. Dr. Ênio Roque de Oliveira—ORPLANA.
17. Manoel Ortolan—Western São Paulo State Association of Sugarcane Growers.

e. Representatives of sugar and ethanol producers

18. Carlos Diogo Motta Garcia—Campo Novo do Parecis Agricultural Cooperative of Sugarcane Growers (in the state of Mato Grosso).
19. José Pessoa de Queiroz Bisneto—CEO, José Pessoa Economic Group (operating in the states of Minas Gerais, Mato Grosso do Sul, and Sergipe).

20. Luis Gustavo Junqueira Figueiredo—Commercial Manager, Alta Mogiana facility (in the state of São Paulo).
 21. Marcos Ometto Gonçalves—Managing Director, Barra Inc. facility (in the state of São Paulo).
 22. Maurílio Biagi Filho—Santa Elisa Energy Company (in the state of São Paulo).
 23. Oscar Figueiredo Filho—CEO, Alta Floresta facilities (in the states of Paraná and São Paulo).
 24. Pedro Isamu Mizutani—CFO, Cosan group (in the city of Piracicaba, state of São Paulo).
 25. Sérgio Simões Ometto—CEO, Barra Inc. facility (in the state of São Paulo).
 26. Walter Rischbieter—Commercial Director, Itamarati Inc. facility (in the state of Mato Grosso).
- f. Government officials
27. Elizabeth Seródio—Director, Department of Ethanol and Sugar, Ministry of Development, Industry, and Trade.
- g. Legislators
28. José Machado—federal congressman from the state of São Paulo.